

# Pivot your strategies to address Commercial Card fraud

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## **Bank of America Merrill Lynch Speakers**

- Mike Timoney, Senior Vice President,  
Senior Fraud Policy Strategist



## **AGENDA**

- **Key drivers in the card security landscape**
- **Commercial Card fraud today**
- **Growing Commercial Card fraud trends – tools and best practices for deterrence**



# What's driving the security landscape?



## Innovation

- New entrants
- New technologies
- New business models



## Government

- Security mandates
- Payment networks



## Data Compromises

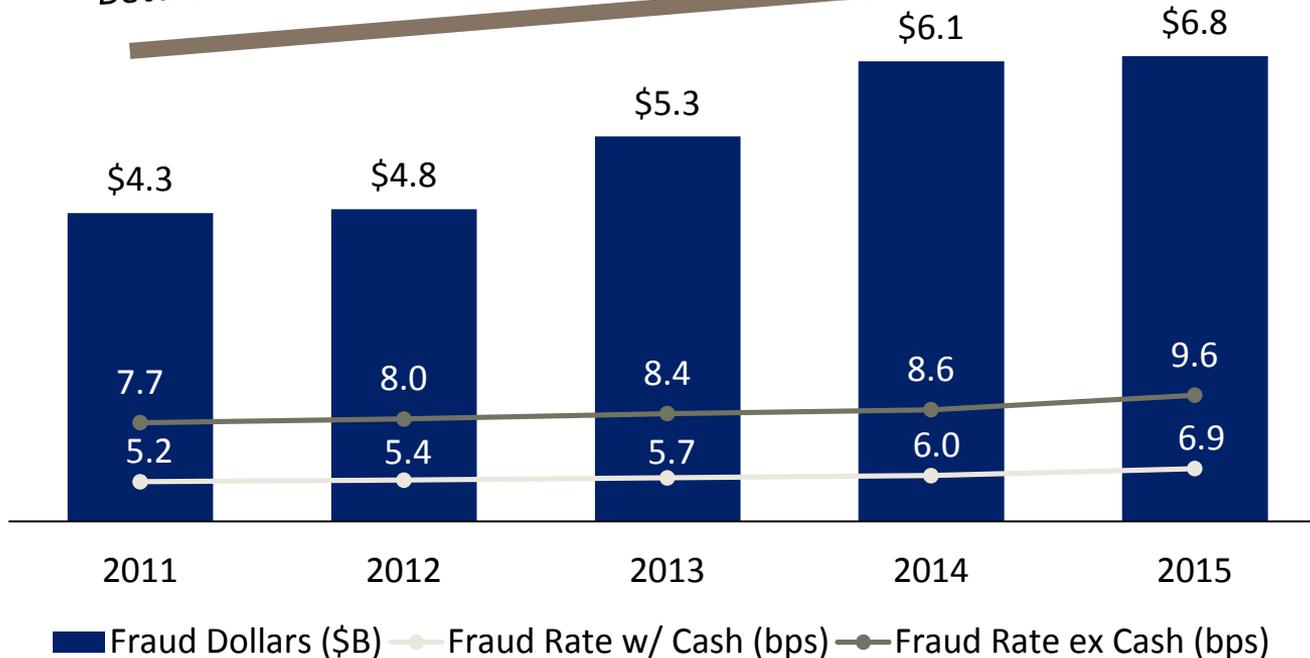
- Concentrated in North America
- Leading to card-not-present as well as counterfeit fraud

## Commercial Card fraud today

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# Global fraud rates are increasing

Between 2011 and 2015, global fraud grew from \$4.3B to \$6.8B



65% of the increase in fraud can be attributed to the rise in global sales but 35% is due to deteriorating fraud rates

The increase in fraud is being driven by rising CNP fraud and counterfeit in North America

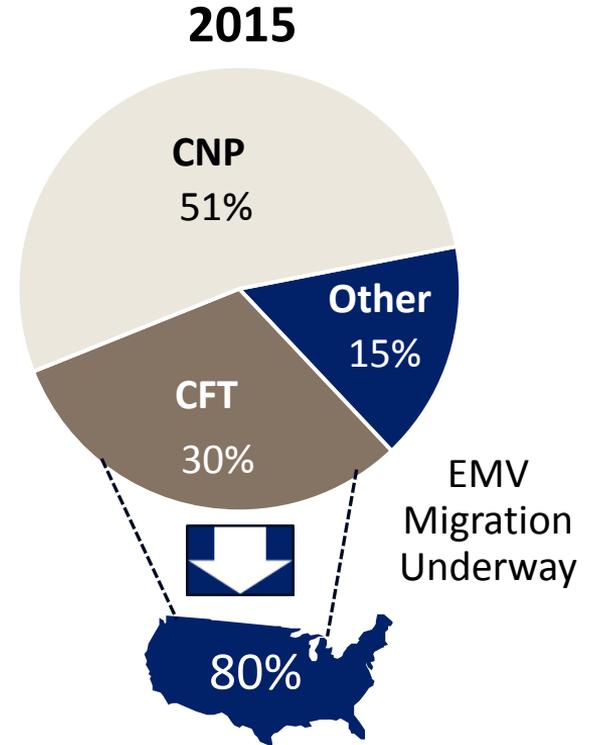
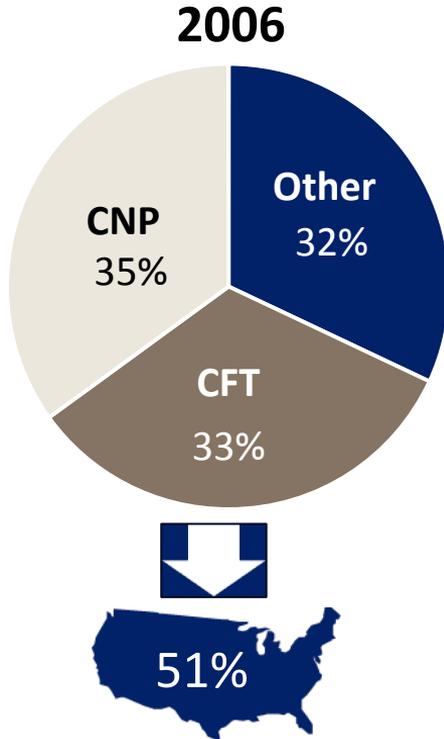
The number of accounts experiencing fraud has increased by 48% over the past two years as we've seen continued growth in data compromises

EMV doesn't change the way a customer's transaction is processed. It only validates that the card presented for payment is a legitimate card rather than a counterfeit

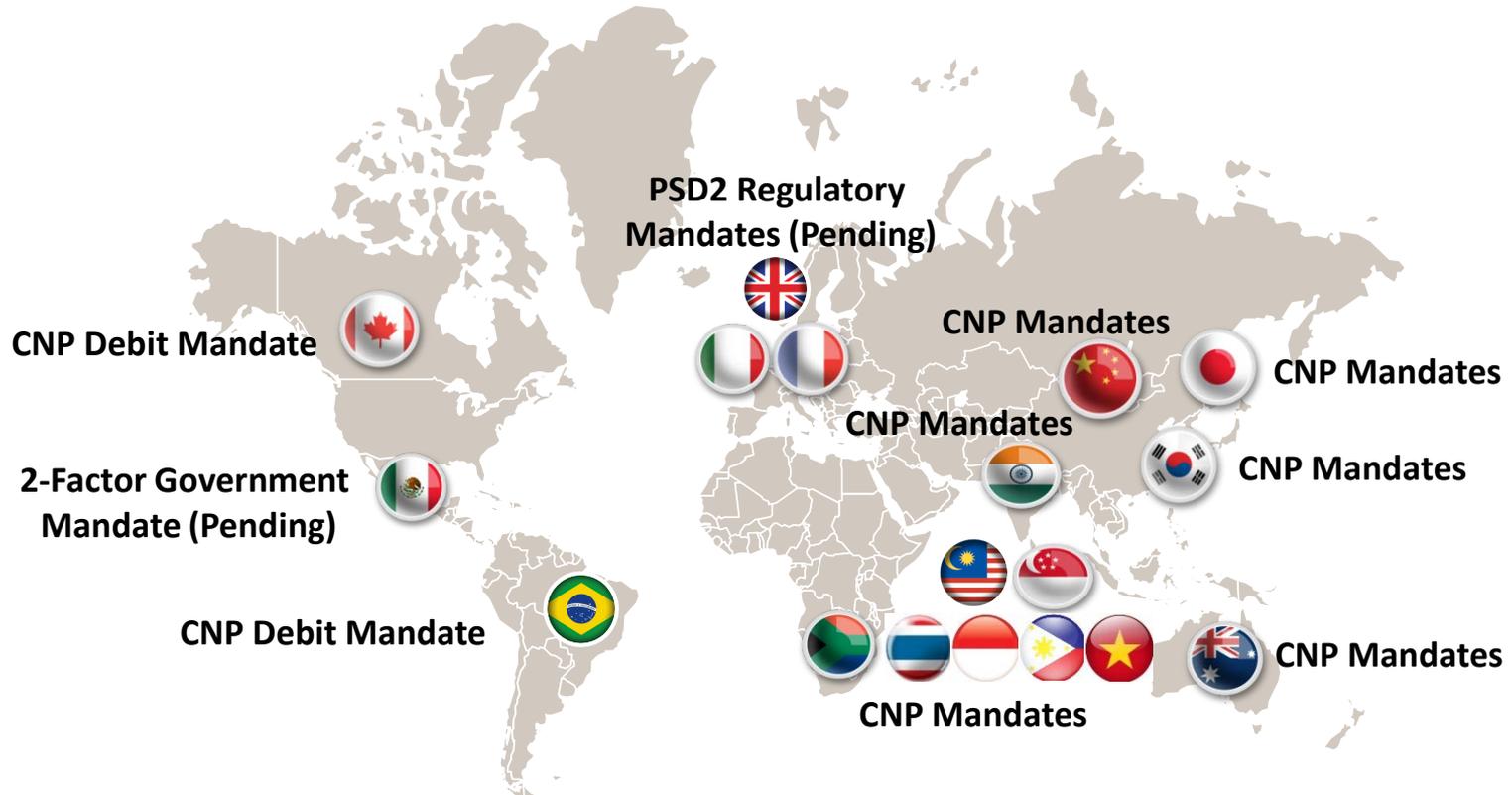
- Per card networks, at one year anniversary counterfeit fraud has declined by more than 50%
- Nationwide, roughly 2 million chip-enabled businesses – 1.3 million of those merchants are local establishments
- 42% of consumers use chip cards three or more times per week
- 91% of consumers have encountered terminals that can't (or won't) accept chip cards and still relied on swipe to complete transaction
- Non-certified and non-EMV merchants en masse reporting big spike in chargebacks since liability shift
- Issuers have gotten cards into vast majority of users' hands, and merchants, at end of year one
- EMV = part of a solution but not a cure for the epidemic of fraud that is plaguing payments and commerce
- EMV is symbolic of collective need for payments and commerce sectors to upgrade security infrastructure to keep pace with rapidly changing world

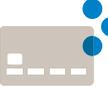


# Future fraud landscape will be dominated by Card Not Present) CNP



# Governments around the world are playing an increasingly active role in payment security



<p>Card breaches facilitate Point-of-sale (POS) fraud, for now</p>	 <ul style="list-style-type: none"><li>▪ Bulk of payment card breach victims' cards misused at physical stores (50%) rather than remote channels (43%); general population victims' cards misused physical stores (42%) and remote channels (51%)</li></ul>
<p>Card fraud will migrate more fully to CNP channels</p>	 <ul style="list-style-type: none"><li>▪ CNP fraud is forecast to affect 3.1% of consumers (twice projected POS level of 1.6%)</li></ul>
<p>Thwarted By EMV, fraudsters use SSN compromises to fuel new-account fraud</p>	 <ul style="list-style-type: none"><li>▪ Point-of-sale fraud rings use SSN compromises to facilitate new-account fraud (NAF) as source of new physical cards (incidence rate of 3.3% – 5 times national rate)</li></ul>
<p>Password compromises render account aggregators vulnerable</p>	 <ul style="list-style-type: none"><li>▪ Any site that can provide access to a large number of credentials is at risk</li></ul>

**Growing Commercial Card fraud trends –  
tools and best practices for deterrence**

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# Fraud losses directly impacted by data compromises and EMV rollout

## DATA COMPROMISES >> Most significant impact to fraud losses in 2016

13,000+ events reported last year

4 BN+ data records stolen since 2013<sup>(1)</sup>

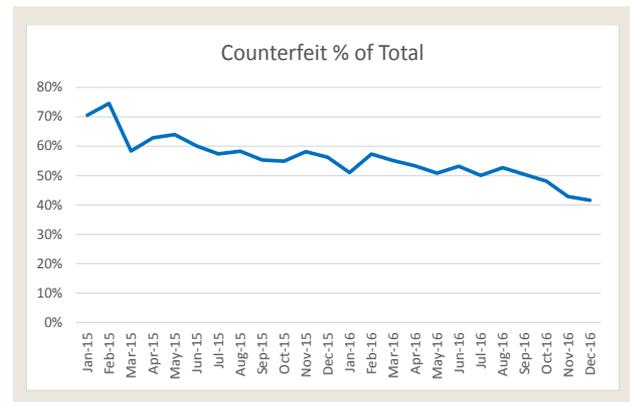


- Reissue compromised commercial cards without negative client experience
- Allows the existing card to remain active for 30 days
- Reissuance process follows existing client delivery preferences

## EMV CARD TECHNOLOGY >> Will eliminate counterfeit cards

45% U.S. merchants accept EMV <sup>(2)</sup>

BofAML Prepaid cards have EMV on select portfolios, primarily focused on programs that have substantial international usage and higher risk profiles.



(1) AITE - 2016 Global Consumer Card Fraud: Where Card Fraud Is Coming From

(2) VISA - U.S. EMV Migration Summary (Client Facing Version) June 2016

# Card Not Present (CNP) and Account Takeover (ATO) fraud events significantly increased

## CARD NOT PRESENT (CNP) FRAUD

Growing significantly compared to card present fraud, card present trending downward

### >> ADDRESSING CNP FRAUD

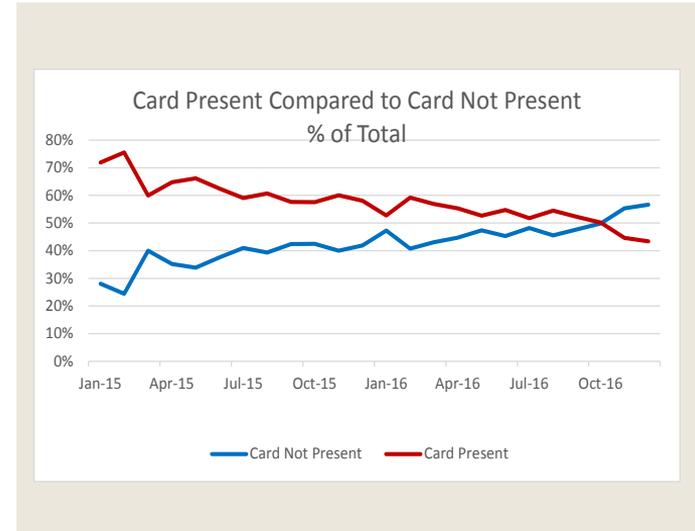
- Enhanced fraud rules targeting CNP type transactions to mitigate fraud while allowing valid spend
- Meeting with industry partners to quickly identify new and emerging threats
- Ongoing training on industry rules and mandates

## ACCOUNT TAKEOVER (ATO)

Experiencing growth as fraudsters reverting to identity theft to gain account control

### >> MITIGATING ATO FRAUD

- Enhanced authentication procedures for Servicing and Fraud teams
- Expanded Fraud rules targeting account maintenance changes



# Improved methods are required to combat a persistently changing fraud environment



## TWO-WAY MOBILE ALERTS

Allows real-time notifications for selected events

- Instantaneous notification of suspicious transactions via text, email, or automated call
- Faster resolution of suspected fraud activity



## CUSTOM FRAUD SCORING MODEL

- Only uses BofAML client card authorizations data
- Allows fraud rules to be specific to Bank of America client base
- Learns and adapts to client spending patterns to minimize false positives



## ENHANCED FRAUD DETECTION EMAIL

- BofAML branding eliminates phishing concerns
- Allows multiple email recipients
- Contains reference number that will be used for authentication and account identification
- Email sent during the detection review process versus batch processing

# Implementing industry best practices has a positive impact on fraud deterrence

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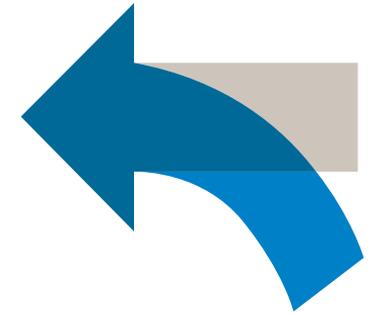
- ✓ Set company policies
- ✓ Review transactions and report suspicious transaction activity to bank immediately
- ✓ Segregate duties
- ✓ Differentiate user names and passwords across platforms
- ✓ Phishing & Masquerading – provide fraud education & training
- ✓ Client level fraud review – stats/trends/specific client experiences related to fraud

# Fraud attempts will occur, but we are focused on minimizing impacts

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Continued focus on balancing fraud risk while maintaining the highest level of client satisfaction



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Let's work **together** to achieve a long-term, sustainable business model

**#1 IN FRAUD PREVENTION, 10 years in a row**  
*Javelin Research, 2016*  
10th Annual Credit Card Issuers' Identity Safety Scorecard



**SERVICE QUALITY AWARD WINNERS**  
*Visa 2015, Commercial Credit*  
Authorization Approval Rate, Domestic & International

## Q&A

- Have a question?

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